A Global Bond

Explaining the Safe Haven Status of U.S. Treasury Securities

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Abstract
This article offers new theoretical and empirical insights to explain the resilience of U.S. Treasury securities as the world's premier safe or "risk free" asset. The standard explanation of resilience emphasizes the relative safety of U.S. Treasuries due to a shortage of safe assets in the global political economy. The analysis here goes beyond the standard explanation to highlight the importance of domestic politics in reinforcing the safe status of U.S. Treasury securities. In particular, the research shows how a formidable "bond" of interests unites domestic and foreign owners of the public debt and works to sustain U.S. power in global finance. Foreigners who now own roughly half of the U.S. public debt have something to gain from their domestic counterparts. The top one percent of U.S. households that dominate domestic ownership of U.S. Treasuries has considerable political clout, thus alleviating foreign concerns about the creditworthiness of the U.S. federal government. Domestic owners, in turn, benefit from the seemingly insatiable foreign appetite for U.S. Treasury securities. In supplying the U.S. federal government and U.S. households with cheap credit, foreign investors in U.S. Treasuries help to deflect challenges to the top one percent within the wealth and income hierarchy.

Keywords: public debt, power, global finance, capital flows, global financial crisis, inequality

Introduction: Safety is Everyone's Business

Why have U.S. Treasury securities maintained their status as the world's premier safe asset since the onset of the global financial crisis?[1] For some pundits, the fact that investors continue to treat U.S. Treasury securities as the safest asset in the world seems counter-intuitive, if not completely contradictory. Persistent budget deficits, successive rounds of unconventional monetary policy (so-called "quantitative easing"), and political wrangling over the debt ceiling, have rattled foreign confidence in U.S. Treasuries. And yet, despite growing signs of discontent, vast sums of money from all over the world continue to flood into the U.S. Treasuries market, allowing the federal government to borrow at relatively low rates.[2] Foreign official and foreign private investors currently own around half of the U.S. public debt and this foreign appetite for U.S. Treasuries shows little sign of abating.

Understanding the crisis-era resiliency of the U.S. Treasuries market should be of considerable interest to researchers in the fields of international political economy and international relations more generally. Offering the largest and most liquid financial market in the world, the U.S. public debt has long been recognized as a source of U.S. financial power in the global political economy.[3] Determining why foreign investors continue to put their faith in the creditworthiness of the federal government helps to shed light on how U.S. financial power has been sustained in the aftermath of the crisis, and on how that financial power might evolve in the future.

In this article, I offer new theoretical and empirical insights to explain the resiliency of the U.S. Treasuries market. The most commonly espoused explanation suggests that U.S. Treasury securities maintain their status as the premier safe asset simply because of a shortage of safe assets in the rest of the world. But I argue that the safe status of U.S. Treasuries is also augmented and reinforced in crucial ways by the configuration of the U.S. political economy. In particular, domestic owners of roughly the other half of the U.S. public debt constitute a powerful bloc of interests working to ensure that the federal government maintains its fiscal credibility.

My analysis is framed primarily as a critical engagement with the work of Eswar Prasad (2014), whose book, *The Dollar Trap: How The U.S Dollar Tightened its Grip on Global Finance*, offers an insightful account of U.S. financial power since the crisis. Prasad claims that the dominant domestic owners of the U.S. public debt are retirees and near-retirees, a group that uses its voting power in elections to further its interests as creditors to the federal government. Though seniors do indeed own a substantial share of the public debt and make up a significant part of the electorate, I argue that the image of older Americans as a coherent political group is highly misleading. The empirical record in the field of gerontology consistently shows that seniors are divided on political issues, and, as a group, have limited influence over the political process.

As an alternative, I argue that the power of domestic owners of the public debt derives not from their age or their status as retirees *per se*, but instead from their class position at the very apex of the wealth and income hierarchy. On a per capita basis, ownership of the public debt is much more heavily concentrated in favour of the top one percent of U.S. households than it is for older Americans. Concentrated ownership of the public debt, I claim, confers structural power on the top percentile. Stretching well beyond the realm of electoral politics, the latent threat of exit from the government bond market serves to discipline government and society into committing themselves to the principles of "sound finance". This structural power is most evident at ideological level. My research shows that the top percentile's share of the public debt has increased over the past few decades alongside an ideological shift in federal government policy, one that prioritizes the interests of government bondholders over the general citizenry.

The alternative focus on class does not modify Prasad's general conclusion. Whether the power of domestic owners of the public debt is conceptualized in terms of class or age, we still end up concluding that their interests are closely aligned with their foreign counterparts. But what this class-based approach does give us is a deeper and much more complex understanding of the interests that unite foreign and domestic owners of the public debt. What I argue, through the intended use of wordplay, is that the "bond" between domestic and foreign owners is actually much stronger than Prasad's account would have us believe. It is not only foreign owners of the public debt that benefit from the existence of powerful domestic counterparts. Domestic owners, too, have much to gain from foreign ownership of the public debt.

How exactly does this work? Seemingly insatiable foreign appetite for U.S. Treasury securities means access to cheaper credit in the U.S. Cheaper credit relieves political pressures for progressive taxation and allows low and middle income Americans to keep up consumption in the wake of stagnant wages. On both counts, foreign investors in the public debt help to deflect challenges to their domestic counterparts within the wealth and income hierarchy. At least in the short-term, the bond of interests between owners of the public debt reinforces the dominant position of the U.S. within global finance. In this sense, the research here supports arguments that what we have witnessed thus far is a "status quo crisis", one that has failed to bring about any fundamental transformation to the global financial order (Helleiner 2014).

My analysis in the remainder of this article unfolds in four sections. In the first section, I review the relevant IPE literature on public debt as a source of financial power. Here I pay particular attention to outlining and scrutinizing Prasad's arguments concerning the power of retirees and near-retirees as domestic owners of the public debt. I then develop an alternative class-based account of the power of domestic owners of the public debt in the second section, focusing on the top percentile. In the third section, I illustrate how the alternative class approach allows us to appreciate the deeper "bond" between foreign and domestic owners of the public debt. Finally, in the fourth section, I summarize the research findings and discuss how they relate to the notion of a "status quo crisis".

Foundations of Financial Power

Public debt has long been regarded as an important source of financial power (Di Muzio, 2007; Rasler and Thompson, 1983; Schultz and Weingast, 2003). The ability to borrow large sums at low cost from voluntary lenders has allowed states to augment their military prowess, invest in public infrastructure, provide welfare for citizens and engage in counter-cyclical spending to combat financial instability. The main advantage of public debt is that it allows for "tax smoothing": borrowing now and gradually repaying in installments later frees governments from the cumbersome task of quickly raising large sums through taxation. Government borrowing therefore lessens the risk of a tax revolt and frees up funds for private investment, a crucial determinant of growth. Public indebtedness can also promote social cohesion by making the domestic owners of government bonds feel, quite literally, *invested* in the fate of their government.

While borrowing domestically can bolster financial power, the accumulation of large foreign debts has generally been associated with weakness (Bradshaw and Huang, 1991). According to the conventional wisdom, capital flows *downhill* from rich countries to poor ones. Without established financial markets and institutions, governments from underdeveloped countries have sought credit from the developed world. These arrangements have often ended badly for the debtor nation. Financial history is filled with examples of poor countries unable to service their debts, and, as a result, being forced to relinquish sovereignty as a condition of restructuring.

Yet over the past few decades the assumptions that underpin the conventional wisdom have been challenged by a remarkable development. The world's most powerful state, the United States, has itself become heavily indebted to foreigners. To complicate matters, the US has become increasingly indebted in recent years not only to other rich countries but also to China, an emerging market ruled by an authoritarian communist regime. Going against the conventional wisdom, a significant amount of capital now flows *uphill* from a poor country to the world's wealthiest one (Chinn and Frieden, 2011: 16; Prasad, 2014: 31-46). And researchers have been unable to come to any consensus on what this means for U.S. power in the global political economy.

The Rise of U.S. Foreign Indebtedness

Before outlining the debate, Figure 1 provides some background on what is at stake. As the thick line in the figure shows, the share of the U.S. public debt owned by the rest of the world has risen sharply over the past four decades. From 16 percent in the 1970s and 1980s this share climbed to 23 percent in the 1990s, then to 47 percent in 2007. Since the onset of the crisis, foreign ownership of U.S. Treasuries has remained steady at around 50 percent.

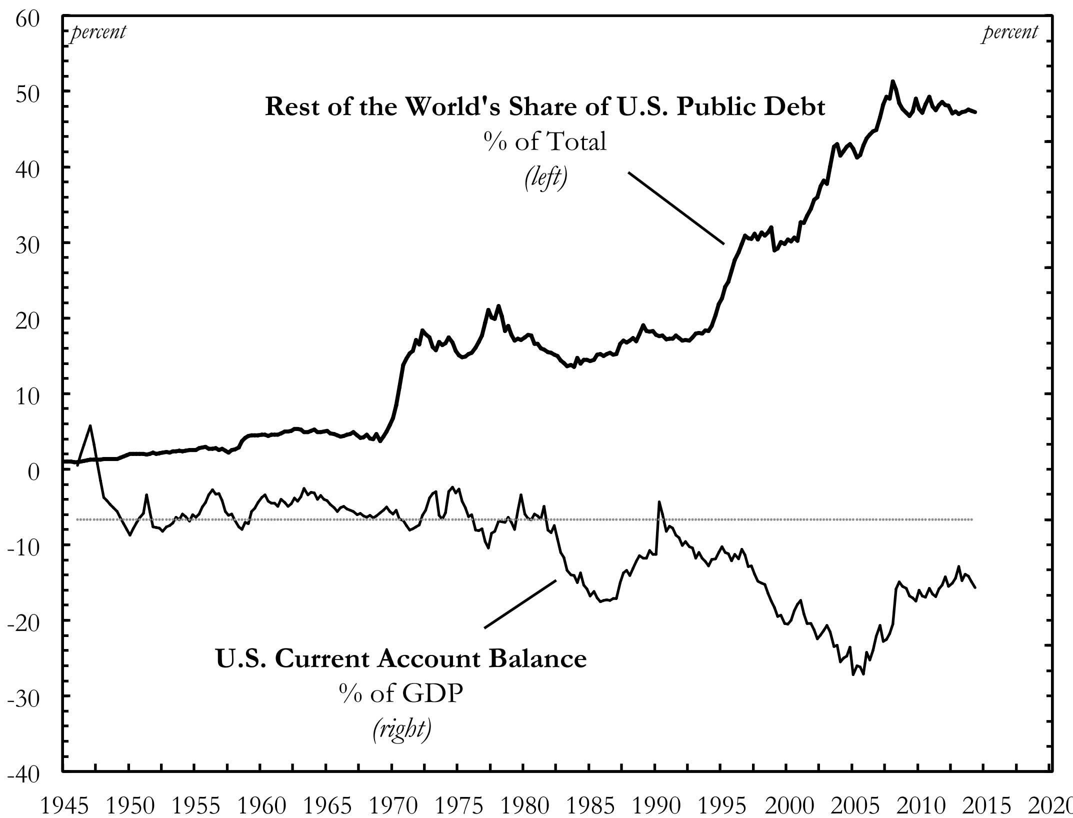

Figure 1 US Current Account Balance and Foreign Share of Public Debt

Note: "Rest of the World" includers both foreign official and foreign private investors.

Source: Federal Reserve Flow of Funds Accounts, for thick series, table L.209; for thin series, Tables F.2 and F.8.

To explain what is driving this massive increase in foreign ownership of the U.S. public debt, we turn to the thin series in Figure 1. This series tracks the U.S. current account balance, which, in simple terms, records the balance of a country's spending over its income (as a percentage of GDP). There are two broad components of the current account: the government sector balance (federal, state and local) and the private domestic balance (households and businesses). Since the early 1980s, the U.S. domestic sector (i.e. government and the domestic private sectors combined) has run deficits. The government sector has been the contributor to the domestic deficit, though outside of recessions and crises, the domestic private sector has also seen its balance deteriorate over roughly the same period.

Persistent U.S. current account deficits register as a surplus for the rest of the world. And foreigners use this surplus to purchase domestic assets, including Treasury securities.[4]

Global demand for U.S. Treasuries has been fuelled by a number of developments (Prasad, 2014: 12-13). Since the East Asian Financial Crisis in 1997, the central banks of emerging markets accumulated U.S. Treasuries as part of their growing stockpiles of foreign exchange reserves. As a form of "self insurance", these vast reserves shield emerging markets from the volatility associated with global capital flows. Rising foreign ownership of the public debt is also a reflection of export-led development strategies in various countries, including China, which recycle dollars earned from trade surpluses back into the U.S. Treasuries market. In addition to earning interest, dollar recycling prevents emerging market currencies from appreciating against the dollar, thus helping exporters to maintain their global competitiveness. In times of crisis, official and foreign private demand only increases, as investors seek out Treasuries as a "safe haven" from global tumult.[5]

The Debate: Weakness or Strength?

The spectacular rise in foreign ownership of U.S. Treasuries has spawned plenty of debate and controversy within IPE and cognate fields. In the lead up to the crisis, this dispute was polarized into two main camps, one arguing that foreign ownership was a clear sign of U.S. weakness, the other a sign of U.S. strength.

For some, the accumulation of Treasury securities by the rest of the world pre-2007 was an outcome of persistent trade deficits, which reflect an inability of the U.S. to compete in globalized markets, and unsustainable budget deficits, which reflect grave dysfunction in the U.S. political system (Eichengreen, 2004; Setser and Roubini, 2005). The pre-crisis capital inflows did not fuel productive investment, but instead funded wasteful military adventures, as well as a dangerous housing bubble (Kirshner, 2006: 155). Once the crisis hit, they argued, a massive foreign sell-off of Treasuries would ensue, driving down the value of the U.S. dollar, driving up U.S. interest rates and finally bringing an end to America's "exorbitant privilege" in global finance. The problems would be aggravated by China, which might use the threat of a massive sell-off of Treasuries in order to force the U.S. to acquiesce to its demands (Arrighi, 2005: 63-64; Thompson, 2007: 314-317).

Others countered that the flow of foreign funds allowed the U.S. to cheaply finance its budget deficits, while freeing up domestic funds for higher-yielding private investments at home and abroad (Levey and Brown, 2005). Even in the event of a crisis, they estimated that a foreign sell-off of Treasuries was unlikely. The U.S. had long been successful in pressuring allies to hold Treasuries in exchange for military security (Murphy, 2006). And from the perspective of export-led rivals such as China, a massive sell-off of Treasuries would have the undesirable effect of lowering the value of the U.S. dollar and boosting U.S. competitiveness. Though a gradual decline of the dollar since the early 2000s meant an erosion of the value of their investments in U.S. Treasury securities, foreign central banks were trapped by their investments. Even rival nations had become the reluctant financiers of American empire (Hudson, 2003).

A Puzzle

Since the onset of the crisis, the side emphasizing U.S. strength appears vindicated. Those warning that a major crisis would lead foreign creditors to engage in a panicked sell-off of U.S. Treasuries have (thus far) been off the mark. Instead of a rapid decrease, the thick series in Figure 1 shows that foreign appetite for Treasury securities has held steady through the crisis.

This is where the puzzle emerges. The fact investors from all over the world continue to deem U.S. Treasuries as safe since the crisis may seem rather surprising. After all, the global financial meltdown originated in the U.S. And since then, various developments have compromised the safe status of U.S. Treasuries. The U.S. public debt has rapidly increased in the wake of the crisis, and in 2013, breached the 100 percent of GDP for the first time outside of World War II.[6] When the Federal Reserve engaged in quantitative easing, large-scale asset purchases from 2008 to 2013, creditors feared that the U.S. was "printing money" to inflate away its debt burden. Political wrangling over the debt ceiling brought the federal government to the brink of technical default twice in 2011 and 2013, further compounding fears about the willingness of the U.S. to uphold its obligations to creditors. In response to the debt-ceiling debacle of 2011, Standard and Poor's even took the step of downgrading the federal government's credit rating, the first time in seventy years, from a pristine AAA to AA+.

Assessing the deterioration of the U.S. fiscal position in the early stages of the crisis, Niall Ferguson (2010: 9) declared: "U.S. government debt is a safe haven the way Pearl Harbor was a safe haven in 1941." Still investors from all over the world continue to flock to the U.S. Treasuries market and the federal government borrows at nearly record-low rates.

Nowhere to Run

Why, then, do investors from all over the world continue to pour vast sums of money into U.S. Treasuries? The commonly espoused explanation (Drezner, 2009: 21–22: 290; Prasad, 2014: 107; Stokes, 2014: 1073) suggests that this resilience has little to do with U.S. strength, but the fact that U.S. Treasuries are still the best investment option in a world of bad investment options. In other words, there is simply a shortage of safe assets in the global financial system at present (Lysandrou, 2013: 522). And it is only when we compare U.S. Treasuries to the alternatives that we appreciate their (relative) safety.

A debt crisis in its periphery and structural flaws in the monetary union have compromised the safe status of Eurzone government debt (Germain and Schwartz, 2014; Otero-Iglesias and Steinberg, 2013). The depth and liquidity of the U.K. government bond market pales in comparison to that of the U.S. Despite a large government debt, Japan has its own economic troubles and its bond market does not attract much foreign investment (Katada, 2008: 405; Prasad, 2014: 106–107). Chinese government debt may eventually challenge U.S. Treasuries as the world's safest asset, but at present underdeveloped financial markets and institutions dint these prospects.[7]

Thus according to the standard explanation, global investors thus have little choice. They may be frustrated by problems in the U.S. In relative terms, however, these problems pale in comparison to those found elsewhere. This commonly espoused explanation for the resiliency of the U.S. Treasuries market seems reasonable enough, yet it still leaves some lingering questions. If the U.S. grip on global finance is so tight, then shouldn't the Federal Reserve be tempted to engage in monetary policy that would inflate away the public debt? This type of "default by stealth" seems particularly appealing now that China owns so much of the U.S. public debt (Eichengreen, 2011: 119). And given this threat of default by stealth, aren't foreign investors taking a stupid risk in continuing to put their faith in U.S. Treasuries?

Domestic Politics

Somewhat surprisingly, these questions have not received much attention in the field of IPE, but have been addressed by Eswar Prasad (2014), an international economist. Prasad argues that, despite all the political drama over the debt ceiling, the federal government is committed to debt repayment and is unlikely to resort to the printing press in order to inflate away its debt burden. In turn, he also claims that foreign investors are taking a calculated risk, rather than a stupid one, in investing in U.S. Treasuries. And to understand why this is the case, we need to look at the domestic ownership structure of the U.S. public debt.

In Prasad's estimation (2014: xiv-xv), the domestic owners of the other half of the U.S. public debt constitute a "powerful political constituency". Comprised mainly of retirees and near-retirees, this group has a low risk appetite and high savings and therefore invests heavily in Treasury securities, either directly or indirectly through its ownership of pension and mutual funds. These domestic owners have a direct stake in the financial health of the federal government and will resist any attempt by the federal government to compromise the sanctity of their investments in the U.S. Treasuries market.

Now, according to Prasad the power of domestic owners of the public debt is amplified precisely because of their age. Older people, he points out, tend to vote in greater numbers. And because many older people also live in swing states such as Florida, they play a key role in determining the outcomes of presidential elections. Domestic owners of the U.S. public debt would bear a significant cost if the U.S. were to inflate away its debt burden. Thus Prasad's essential argument is that the interests of foreign and domestic owners of the public debt are united because both have an interest in the creditworthiness of U.S. Treasuries.

Foreigners, even if they are not explicitly aware of it, can maintain confidence in U.S. Treasuries thanks in large part to the power of domestic owners, who play a key role in pressuring the federal government to uphold its debt obligations.

Prasad's approach stands out in identifying the role that domestic politics play in reinforcing the safe status of U.S. Treasuries. Yet his claims are not systematically explored. He does not give any exact figures on how much of the public debt is owned directly or indirectly by retirees and near-retirees. Nor does he give any substantive evidence of how older Americans use their voting power to further their interests as owners of the public debt. We can, however, evaluate his claims by piecing together some evidence for ourselves.

The Power of Older Americans

Evaluating Prasad's first claim regarding the ownership of the public debt by older Americans is relatively simple. Table 1 uses data from the Federal Reserve's 2013 Survey of Consumer Finances (SCF) to disaggregate ownership of the U.S. public debt. The measure of public debt in the table is broad: it includes both direct household holdings of the public debt, as well as pension and mutual fund wealth, which is assumed to represent indirect ownership of the public debt through asset managers.

Table 1
Age Versus Class: Share of Public Debt in 2013
(Direct & Indirect)

	% with ownership stake	% share of public debt	% of population	per capita holdings	% of electorate
60+	48	53	33	$57,000	40
Top 1%	92	33	1	$1,150,000	>1

Note: Indirect holdings include ownership of pension and mutual funds. Pension funds include all IRA and Keogh accounts and other pension assets; mutual funds include all stock, tax-free, other bond, combination, other and money market mutual funds. Direct holdings include ownership of savings bonds, other federal bonds and U.S. government or government backed bond mutual funds.

Source: Data in the first four columns from the Federal Reserve Survey of Consumer Finances; data on percentage of the electorate aged 60 plus in the last column from McDonald (2016).

The first row in Table 1 shows the share of the public debt owned by households with a head of house aged 60 and over (a proxy for retirees and near-retirees). As we see, 48 percent of 60 plus households reported to have some direct or indirect stake in the public debt. Older households own over half of the direct and indirect holdings of the public debt in 2013, yet they make up only about one-third of the adult population. In absolute terms, the value of investments in the public debt for households aged 60 plus amounted to $57,000 (significantly higher than the $35,000 owned by the average U.S. household).

At first blush, the data in the first row of Table 1 provide some empirical confirmation for Prasad's first claim. Retirees and near-retirees do indeed dominate ownership of the public debt in the sense that their ownership share is larger than their share of the population, and that their per capita share is larger than the U.S. average. Where the task becomes more difficult is in evaluating Prasad's second claim regarding the ways that older Americans wield their voting power to further their interests as owners of the public debt.

Prasad's arguments have obvious affinities with the literature on the "credible commitments" furnished by domestic institutions. Pioneered by Douglass North and Barry Weingast (1989), the main idea behind this literature is that representative institutions can alter the incentives for government by making the punishment from default more painful than the gains from refusing to pay. A democratically elected legislature may act as a veto player to rein in a profligate executive, and periodic elections allow voters to oust officeholders that renege on their financial commitments (Schultz and Weingast, 2003: 12). Representative institutions, in short, enhance creditworthiness. And this is especially the case if owners of the public debt, a group with a direct stake in the fiscal credibility of government, have meaningful influence over the democratic process (Stasavage, 2003: 9–11).

As Table 1 indicates, older Americans do make up a significant part of the electorate (around 40 percent in the 2014 general election). But this idea that older Americans are a cohesive voting bloc, and act as a powerful veto player ensuring credible commitments from government, conflicts with much of the research within the field of gerontology. While older Americans do tend to vote in greater numbers, the findings in this field consistently demonstrate that they are divided in terms of their policy preferences and even their partisan affiliations (Holladay and Coombs, 2004).

For all of the talk of inter-generational conflict, the empirical record shows little evidence of disagreements on policy, including on contentious issues such as social spending and taxation, between different age groups (Fullerton and Dixon, 2010; Hamil-Luker, 2001; Rhodebeck, 1993; Street and Cossman, 2006). In fact, some research indicates that rifts are more likely to emerge within age groups than between them (Day, 1993). Recent polling by the Pew Research Center found that the ideological profiles of older Americans were evenly split, with 33 percent of Americans 65 and over in "left wing" categories (e.g. "solid liberals" and "faith and family left") and 32 percent in "right wing" categories (e.g. "steadfast conservatives" and "business conservatives") (Desilver, 2014). And despite evidence of a growing age gap in electoral politics in recent years (Fisher, 2008), party affiliation amongst older Americans is actually quite split. Pew (2014) polling data shows that party identification is almost evenly divided among those aged 59 and over: 44 percent identified as Republican or lean Republican, while 46 percent identified as Democrat or lean Democrat.

Deep divisions among older Americans undermine the popular image of seniors as a juggernaut within U.S. politics (Holladay and Coombs, 2004). Given the empirical reality, it seems highly implausible that seniors could use their ownership of the public debt to exercise sustained veto power over the political process.

From Age to Class

Why are older Americans so divided politically? Part of the reason might have to do with increasing inequality among them. As a group, seniors have not been isolated from the growing disparities in the distribution of wealth and income that have characterized American society more generally over the past few decades (Crystal et al., 2016). These disparities also find their way into the ownership structure of the public debt. According to SCF data for 2013, the top ten percent of 60 plus households ranked by net wealth owned 76 percent of the public debt owned by older Americans, while the top one percent of 60 plus households owned a quarter. The data suggest that it is not older Americans *per se*, but wealthy older Americans that are united together by their ownership stake in the public debt.

This simple observation leads to another possibility for identifying the locus of power in the domestic politics the public indebtedness. Perhaps domestic owners are best classified not by their age, but by their class position at the top of the wealth and income hierarchy. Thanks in large part to the stunning successes of Thomas Piketty's (2014) *Capital in the Twenty First Century*, issues of inequality and the "class warfare" that pits the top one percent against the rest of the population have gained a great deal of attention. Given the renewed focus on inequality since the crisis, it is worthwhile exploring class as an alternative basis for locating the power of domestic owners of the public debt.

For comparative purposes, the second row of Table 1 shows the share of the public debt that is owned by the top one percent of U.S. households (ranked by net wealth). As we can see, in 2013, 92 percent of households within the top percentile reported to have some direct or indirect stake in the public debt (compared to 48 percent of households aged 60 plus). The top percentile of households owned 33 percent of the public debt, but obviously only make up only one percent of the population. The value of the average household in the top percentile's investments in the public debt amounted to well over $1 million (compared to $57,000 for the average household aged 60 plus).

Class Cohesion

Thus on a per capita basis, ownership of the public debt is more heavily concentrated in favour of the top percentile than for older Americans. This suggests that class, rather than age, offers a better starting point for exploring the power of domestic owners of the public debt. But what can we say about the relative cohesiveness of the top one percent as a social group? Some have alluded to possible divisions within the top percentile, mainly due to the fact that most of the wealth and income gains since the 1970s have went to the top 0.01 percent (Anonymous, 2014). And to be sure, ownership of the public debt within the top percentile is just as skewed as it is among seniors. In fact, the top 0.1 percent owns roughly a quarter of the top percentile's share of U.S. Treasuries. Yet even though the category is imperfect, there is still plenty of evidence to support the claim that the top one percent is, in relative terms, much more cohesive as a social group than retirees and near-retirees.

In addition to commonly shared cultural and consumptive practices (Di Muzio, 2015), the top percentile also shares a coherent set of political preferences. Page, Bartels and Seawright's (2013: 65) path breaking Survey of Economically Successful Americans (SESA) not only reveals "political homogeneity" amongst members of the top one percent, but also that political preferences of the top percentile contrast starkly with those of the general public. Most significantly, SESA shows that the top percentile's support for certain policies, especially for social spending cuts and deregulation, is much higher than it is among ordinary Americans.[8]

The SESA findings also indicate a high degree of cohesion within the top one percent in terms of partisan preferences (Page et al., 2013: 60). 58 percent of those surveyed identified with the Republican Party and only 27 percent with the Democrats. Furthermore, affluent Americans that do identify with the Democratic Party tend to be much more conservative than the average Democrat on economic issues (ibid.: 60). SESA also shows that political cohesion within the top percentile is matched by unusually high political activism (ibid.: 53). 99 percent of affluent Americans surveyed by SESA voted in 2008 and around two-thirds contributed money to political campaigns (as opposed to 14 percent of the general population) (ibid.: 54). The top percentile was also much more likely to contact politicians directly and in SESA interviews often referred to politicians on a first-name basis (ibid.: 54).

Perhaps most importantly, other research indicates that the cohesion and activism of affluent Americans translates into significant influence over public policy outcomes (Bartels 2008; Gilens, 2005, 2012; Gilens and Page, 2014). In other words, these studies show with a great deal of statistical precision that the preferences of elites consistently influence political decision-making, whether in terms of congressional and senate voting or actual policy changes.

Beyond Veto Playing

Existing research provides clear evidence of the incredible power wielded by the top percentile. Yet something obvious that stands out in Table 1 is the fact that the top percentile makes up a smaller percentage of the electorate than retirees and near-retirees. As a very small bloc of voters, the top one percent is highly unlikely to form a veto player in the traditional sense of the term. Instead, most of top percentile's power and influence is wielded outside of the "open contestation" of electoral politics (Pierson, 2015: 125). But then this observation raises a fundamental question: If the top percentile is not a significant veto player, then how do we examine its influence as owners of the public debt?

Unfortunately, the existing literature on "credible commitments" does not offer much of an empirical blueprint. The more sophisticated empirical studies within this literature are focused on early modern Europe, especially on late seventeenth and early eighteenth century Britain after the Glorious Revolution of 1688 (Carruthers, 1996; Stasavage, 2003, 2007). It is arguably much easier in this context to identify the direct political influence of domestic owners of the public debt. In the early days of the British financial system, government securities were by far the most prominent form of financial wealth. And a tiny but powerful group of London financiers – commonly referred to as the "monied interest" – dominated ownership of the public debt, as well as the debt securities of joint stock companies that lent to government in exchange for charter privileges. Domestic owners of the public debt constituted a clearly defined social group with a clearly defined set of interests, and perhaps the most important of these interests was to safeguard their investments in the public debt. What is more, the monied interest was represented in parliament by the Whig party, which consistently voted in favour of measures that would make the reliable servicing of the public debt a policy priority for government (Stasavage, 2007: 127). This was in stark contrast to the Tory party, which represented the taxpaying landowners and at times openly advocated government default (ibid.: 125).

Today in the U.S. things are more ambiguous. The public debt is still crucial to modern finance, but government securities now stand alongside a vast array of other financial instruments. In contrast to the early monied interest, there is no evidence to suggest that domestic owners of U.S. Treasuries today regard lending to government as their *primary* role, even if they own significant stakes in the public debt directly or indirectly. There is also little evidence that domestic creditors self-identify as a group, or that others, including their foreign counterparts and the federal government, identify them as a coherent group.[9] There is no political party, or even a dominant faction of a political party, that explicitly represents domestic creditors to the federal government. To complicate matters, there is no specific lobbying organization that represents owners of the U.S. public debt and thus no sign of any "instrumental power" over the political process.

Contemporary realties thus make it difficult to analyze how ownership of the public debt translates into political influence. To examine this influence in the contemporary context, we need to depart from the realm of open contestation and look at the indirect forms of power that the top percentile wields to ensure credible commitments from government.

Mapping Concentration

In my own research, I have explored the class dimensions of domestic ownership of the U.S. public debt (Hager, 2014, 2015, 2016; see also Tett, 2013). Most importantly, what my research indicates is that inequality in ownership of the public debt mirrors wealth inequality more generally. When the wealth share of the top percentile of households and large corporations increases or decreases, so too does their share of the public debt.

In the 1920s the top percentile owned 45 percent of all direct household sector holdings of Treasury securities. This share gradually fell over the following decades and reached its nadir of around 20 percent in 1960s. The top percentile's share of the public debt then gradually increased to one-third by the early 1980s and continued to increase, reaching 38 percent in 2007. What is most shocking is the rapid increase in ownership concentration that has taken place since the onset of the global financial crisis. By 2010, the top percentile's share of public debt was nearing its historical highs at 42 percent; by 2013, the share had increased even further to a shocking and unprecedented 56 percent.

A similar dynamic underpins corporate ownership of the public debt. Over the past three and a half decades, the top 2,500 U.S. corporations have increased their share of corporate holdings of the public debt from 65 percent in 1977-1981 to 82 percent in 2006-2010. Much like the household sector, concentration in corporate ownership of the public debt has intensified since the onset of the crisis. In 2006 the top 2,500 corporations owned 77 percent of the corporate share and this climbed to 86 percent by 2010. These corporate holdings of the public debt are increasingly dominated by mutual funds, which are heavily concentrated in favor of the top one percent, at the expense of pension funds, which are widely held.

An Unintended Consequence

What explains increasing concentration in domestic ownership of Treasury securities? Here power is at the front and center of the explanation, but only indirectly as a by-product, or unintended consequence, of the influence of the top one percent in other areas of public policy.

Since 1970s, growth in the public debt has been driven by two processes: gradually increasing federal government spending, on the one hand, and stagnant federal tax revenues, on the other. As Wolfgang Streeck (2014) argues, the gradual increase in government expenditures can be regarded as a necessary function of capitalist development. As the market expands and deepens, extending its commodifying logic to ever more aspects of social life, the government must increase its activities in the realms of infrastructure, policing and social protection. Tax stagnation, however, is the result of a more overtly political process. For Streeck, capitalism has a tendency to concentrate wealth and this, in turn, augments the power of top earners to resist the government's attempts to extract resources from them. Hacker and Pierson (2010: 182-185) have documented this resistance, showing how elites in the U.S. have successfully engaged in a highly organized tax revolt, including intense lobbying efforts, to reduce their tax burdens over the past few decades.

Thus growth in the public debt is due primarily to efforts on the part of the top percentile to reverse progressive taxation. Though the top one percent and large corporations that are owned by the top percentile pay the bulk of federal taxes, they are paying less and less taxes as a percentage of their income. As a result, the top percentile has more money freed up to invest in the growing stock of U.S. Treasury securities, which are a particularly appealing investment option in times of crisis. Ultimately, what this means is that the federal government now chooses to supply elites with "risk free" Treasury securities instead of taxing their incomes (Piketty, 2014: 566).

Structural Power

It is important to stress that increased concentration in ownership of the public debt is not the outcome of conscious action: the government has not planned it; nor has the top percentile orchestrated it as part of a coherent political strategy. But for the top percentile, concentrated ownership of U.S. Treasuries is, nevertheless, the unintended (and beneficial) by-product of the exercise of power in other areas of public policy. In this sense, power helps to explain the *causes* of concentration in ownership of the public debt. But what *consequences*, if any, does a public debt concentrated in favour of the top percentile have for the exercise of power?

I argue that the consequences of concentrated ownership of the public debt for power are most effectively analyzed at the structural level. The notion of structural power begins with the recognition of the unique position that private business occupies in capitalist societies as the dominant owner of wealth and the provider of wages for workers (Hacker and Pierson, 2002: 280-281). Ownership of wealth gives business the capacity to make authoritative decisions over when, where and how much to invest, and these decisions are based on calculations of expected profitability. Control over investment, and crucially, the ability to withdraw financing through an "investment strike", is the source of the structural power for business. The latent "threat of exit" is enough to compel workers and government officials to respect private property and the need for business confidence.[10] In this way, research emphasizing the structural power is built on the assumption that capitalist societies have an inherent bias that privileges business interests.

For government, the structural power of business is felt most immediately in the public finances (Gill and Law, 1989: 481; Gough and Farnsworth, 2006: 86). The centrality of private investment means that the government depends on business for a substantial portion of its tax revenues. And when the government borrows it becomes dependent on financial markets. Like private sector investment, investors in government bonds make their decisions based on expectations about future profitability. The structural power of owners of the public debt stems from their ability to sell their existing holdings of government bonds, or, when the government auctions new debt, to command higher interest rates or refusing to purchase the newly auctioned debt. The ability to influence the cost of borrowing through the sale and purchase of public debt ensures that governments commit themselves to the principles of "sound finance".

Though it has been influential in the field of IPE, one glaring problem with the structural view has to do with its explanation of variations in power across time and space. Capitalist states may all adhere to the "sound finance" doctrine, but this adherence fluctuates over time and varies greatly between them. Thus in order to empirically explore structural power in any meaningful way, it needs to be treated as a variable and not a constant (Hacker and Pierson, 2002: 282). When it comes specifically to the structural power as domestic owners of the public debt, influence is dependent on two main factors.

The first factor is the degree of concentration in domestic ownership of the public debt. All other things being equal, the greater the degree of ownership concentration, the higher the threat that comes from the ability to exit the government bond market. The second factor is the overall level of public indebtedness. A government with a public debt of three percent of GDP might feel less compelled to worry about its creditworthiness in financial markets, even when its debt is 100 percent concentrated in the hands of powerful groups. Similarly, a government with a public debt of 200 percent of GDP might feel more compelled to maintain its good standing with investors when its debt is widely held.

Ownership, Power and Ideology

My own research suggests that the structural power of domestic owners of the public debt has increased markedly over the past few decades and that the consequences of this power are primarily ideological. To explore the ideological dimensions of structural power, I conducted a simple content analysis of the *Economic Report of the President* (*ERP*), the main document through which the U.S. presidency details and justifies its economic policy to the public (Hager, 2015: 518–520).

Conceptually, I employ Streeck's (2014: 81) simple dichotomy, which identifies certain terms with the interests of bondholders (e.g. international, investors, interest rates, confidence), and other terms with the interests of the citizenry more generally (e.g. national, public opinion, citizens, loyalty). Recording the frequency with which the respective terms appear in the *ERP*, the research shows that, as ownership concentration and the level of public indebtedness both increase, the terms that are associated with the interests of bondholders take precedence. For example, in the postwar period, when both ownership concentration and the level of public debt were quite low, references to the terms associated with bondholders were only 75 percent as frequent as those associated with the citizenry. Yet in the context of the crisis (2006-2010), when both ownership concentration and the level of public indebtedness were high, references to the terms associated with bondholders were *twice as frequent* as those associated with the citizenry.

Assigning causality is always tricky, especially in this case where a lack of reliable historical data on the ownership structure of the public debt preclude any possibility of a large-*n* statistical analysis. As Hacker and Pierson (2002: 285) are careful to point out, empirical analyses of power need to distinguish between association and causation. Just because the content of policy is congruent with certain interests does not mean that the policy shift itself was caused by the structural power of domestic owners of the public debt. Rather than reflecting the ability of domestic owners of the public debt to shape policy in line with their preferences, the change in policy might have been brought about by some other process. The change might also have been brought about by mere accident, or the line of causation might well be reversed: the shift in policy might lead to increased concentration in ownership of the public debt. As presented here, the analysis also does not take into account the rise of foreign ownership of the public debt itself, which could play a crucial role in shaping the ideological climate due the latent exit threat of global investors.

But what this empirical research does illustrate, even if only modestly, is that there has been a transformation in policy, one that provides an ideological climate that privileges the interests of the owners of the public debt. Thus the empirical record suggests that these owners, whether domestic or foreign, and whether they are fully aware of it or not, should be confident that the federal government will reliably elevate financial imperatives above the concerns of the general citizenry within policymaking. This ideological privileging of the interests of bondholders serves as an alternative but nonetheless powerful form of credible commitment upon which foreign owners of U.S. Treasuries can rely.

A Deeper Bond

Evidence indicates that the locus of power for domestic owners of the public debt is to be found not with older Americans, as Prasad suggests, but with the top one percent of Americans at the top of the wealth and income hierarchy. But why does this matter? What does an emphasis on the class identity of domestic owners of the public debt reveal that the emphasis on age neglects or overlooks?

The alternative focus on class does not alter Prasad's general conclusion. Whether we focus on age or class, we still end up concluding that domestic owners of the public debt represent a formidable political force whose interests are closely aligned with their foreign counterparts. What the alternative focus on class does reveal, however, is that domestic owners are much more formidable than Prasad's analysis suggests. Based on the analysis here, foreign owners of the public debt can be even more reassured about the abilities of the powerful constituency of domestic owners to pressure the U.S. federal government to maintain its creditworthiness, thereby ensuring the sanctity of the Treasuries market as the world's safest financial asset.

Most crucially, although the alternative class focus does not alter Prasad's general conclusion, it does illuminate other "bonds" between domestic and foreign owners of the public debt that are neglected in his analysis. Focusing on class, it becomes clear that foreigners are not the only ones to gain from the ownership structure of the public debt as it is currently configured. Powerful domestic owners also have something to gain from foreign investment in the U.S. Treasuries market.

Barry Eichengreen (2011: 118) notes "a remarkable degree of consensus" amongst economists on the role that foreign investment in U.S. Treasuries plays in lowering U.S. interest rates. Francis Warnock and Veronica Warnock (2009: 904) find that capital inflows to the U.S. Treasuries market have a "statistically and economically significant impact" on lowering the yield on 10-year Treasury bonds, an impact that extends to other U.S. financial instruments, including household mortgages. In facilitating access to cheap credit for domestic borrowers, I argue that foreign ownership helps to reinforce the power of domestic owners of the public debt through two main channels.

Government Credit: Deflecting Calls for Progressive Taxation

The first channel through which cheap credit reinforces the power of domestic owners of the public debt is in lowing the cost of borrowing for the federal government. As mentioned earlier, the federal government is currently borrowing record amounts outside of the two world wars, at nearly record-low rates. Cheap credit from abroad relieves political pressures on the government to steer an alternative course in terms of its public finance policies. And this status quo in the public finances, in turn, serves the interests of domestic owners of the public debt at the top of the wealth and income hierarchy.

How exactly does this work? Earlier I argued that the explosive increase in the public debt over the past few decades have been driven primarily by tax stagnation and declining tax progressivity, which were the product of an organized tax revolt by the top percentile of households and the largest corporations. Declining tax progressivity is the root cause of an increasing public debt. And this means that the federal government borrows from elites instead of taxing them. As a result, the public finances help contribute to growing wealth and income inequality.

One way to reverse inequalities at the heart of the public finances would be to roll back declining progressivity and implement more progressive forms of taxation. As part of a double-edged strategy to tackle inequality and reduce the public debt, progressive taxation has been advocated by Vermont Senator and presidential-hopeful Bernie Sanders, as well as the Economic Policy Institute, Roosevelt Institute and the Flip the Debt campaign, an anti-austerity splinter group of the Occupy movement (Bradner, 2015; Fieldhouse, 2011; Roosevelt Institute, 2011). Flip the Debt's boisterous slogan – "Hey 1%! Pay your damn taxes!" – places responsibility for public debt reduction on the shoulders of wealthy households and large corporations that have saved an estimated $2.3 trillion through tax loopholes, offshore tax havens and tax cuts (Kilkenny, 2013).[11]

With foreign willingness to underwrite the U.S. pubic debt, seemingly *ad infinitum*, the federal government faces less pressure to bow to these pressures. The low cost of borrowing facilitated by foreign capital legitimates escalating levels of public debt and lessens the immediacy of calls to increase taxes on wealthy households and large corporations. In this way, cheap finance from abroad serves to sustain the domestic status quo, which works in favor of the top one percent.

Household Credit: Dampening Resentment Toward Inequality

There is another less obvious but crucial channel through which foreign owners of the public debt reinforce the power of their domestic counterparts. As the work of Warnock and Warnock suggests, foreign purchases of U.S. Treasury securities have clear knock-on effects, lowering the costs of borrowing not only for government but also for households and businesses. By facilitating access to cheap household credit, foreign ownership of the public debt also helps to relieve social tensions that emerge from decades-long wealth and income stagnation for the vast majority of Americans.

Discussions of inequality tend to focus on the top percentile's increasing share of total wealth and income since the early 1980s. Yet top earners have not only taken a greater share of the overall pie, they have also seen the absolute levels of their fortunes expand. Meanwhile, the wealth and income of those below the top percentile have stagnated over the same period.

The recent work of Emmanuel Saez and Gabriel Zucman (2014: 48) reveals great disparities in wealth and income growth since the early 1980s. According to their research, low and middle-income Americans in the bottom 90 percent of distribution have seen their "real" wealth and income increase 0.1 percent and 0.7 percent respectively from the mid-1980s to 2012. In contrast, the "real" wealth and income of the top percentile grew 3.9 percent and 3.4 percent respectively over the same period. With stagnant wealth and income, those in the bottom 90 percent have virtually zero savings, while those in the top one percent have managed to save 36 percent of their income.

With stagnant wealth, income and deteriorating savings, households in the bottom 90 percent face the specter of declining living standards, and, for those not already at the very bottom, declining positions within the class hierarchy. Engelbert Stockhammer (2015: 947-949) documents how low and middle-income Americans, in an effort to stave off these nasty consequences, have rapidly accumulated debt. Debt-to-income ratios for households in the bottom fifty percent have increased from 0.61 in 1989 to 1.37 in 2007, and from 0.81 to 1.48 for households in the fiftieth to ninetieth percentile. Meanwhile the debt-to-income ratio for the top percentile has increased much more modestly from 0.25 to 0.37 over the same period.[12]

Thus one of the main consequences of rising inequality has been a concomitant explosion in household indebtedness. In his renowned book *Fault Lines: How Hidden Fractures Still Threaten the World Economy*, Raghuram Rajan (2010) was one of the first to systematically examine the link between inequality and household indebtedness, and most importantly, to situate it within a global context.

Rajan argues that expanding household credit is the path of least resistance for the U.S. federal government in dealing with rising inequality since the early 1980s.[13] Faced with wealth and income stagnation, and a dwindling share of the distributional pie, access to cheap credit placates low and middle-income Americans. This placating role is especially important because a great deal of household borrowing goes toward home ownership, a key facet of the American dream (Schwartz, 2009). On the flipside, elites in the top percentile favour the expansion of household credit, seeing it as a more palatable solution to inequality than redistribution through progressive taxation.

Yet, as Rajan is careful to point out, there are domestic limits on credit expansion as a means of addressing inequality. Efforts to boost consumption via credit expansion fan the flames of inflation and put pressure on the Federal Reserve to raise interest rates, a move that would, in turn, curb household borrowing and consumption. Rajan identifies two global factors that help the U.S. to supersede these domestic limits. First, the flood of cheap imports, mostly from China, relieves inflationary pressures. Second, the flood of cheap capital from export-led countries into the U.S. Treasuries market puts downward pressure on U.S. interest rates.

Household debt serves as a compensatory mechanism in the face of wealth and income stagnation for low and middle-income households. The constant flood of foreign money into the U.S., in facilitating widespread access to credit, helps to dampen resentment toward the top percentile that not only takes a bigger share of the distributional pie, but has also seen its wealth and income grow in absolute terms since the early 1980s.

Conclusion: A Status Quo Crisis?

In this article, I presented new evidence to explain the resiliency of U.S. Treasury securities as the world's premier safe asset. Alongside the commonly recognized lack of alternatives (i.e. the shortage of other safe assets), I claimed that the existence of powerful domestic owners of the public debt bolsters confidence in U.S. Treasuries. In contrast to the innovative work of Prasad, I argued that the power of domestic owners of the public debt derives not from their age but from their class position at the top of the wealth and income hierarchy.

As the dominant domestic owners of the public debt, the top percentile of U.S. households wields most of its power outside of the realm of electoral politics. Rapid concentration in ownership of the public debt is itself an outcome of the top percentile's power to organize a successful revolt against progressive taxation. This concentrated ownership confers structural power on domestic owners of the public debt, which is felt mostly at the ideological level. Although cause and effect is impossible to determine with existing data, it is nevertheless significant that growing concentration in ownership of the public debt has proceeded alongside an ideological transformation in federal policy, one that privileges the interests of bondholders over general citizenry. This ideological climate provides an alternative form of credible commitment that works in favour of owners of the public debt, both foreign and domestic.

The results of this research do not alter Prasad's main conclusion. Whether we focus on age or class, we still end up concluding that the interests of domestic owners of the public debt are closely aligned with their foreign counterparts. But the alternative focus on class does draw our attention to other "bonds" between the two categories of owners that are neglected with Prasad's analysis. Focusing on class, it becomes apparent that foreigners not only gain from the existence of powerful domestic owners, but that powerful domestic owners gain from the seemingly insatiable foreign appetite for U.S. Treasuries. The powerful "bond" of interests between foreign and domestic owners of the public debt also works to sustain the dominant position of the U.S. within global finance. And, in supplying cheap credit to the U.S. federal government and to U.S. households, foreign ownership of the public debt works to sustain the dominant position of the top percentile at the top of the wealth and income hierarchy.

At least in the short-term the status of U.S. Treasuries as the world's safest asset looks set to endure. Thus the conclusions reached in this article therefore correspond with Helleiner's (2014) view that what we have witnessed has been a "status quo crisis", one that has done little to alter global financial governance.[14]

Projecting the resilience of the current arrangements into the future is decidedly more difficult. In the long-term, the U.S. status as *the* world's primary safe haven may indeed be challenged. China's apparent willingness to take on a more prominent leadership role points toward a potential long-term shift in the distribution of global financial power. Recent efforts to open up the Chinese government bond market to foreign ownership, as part of the inclusion of the renminbi as part of the IMF's SDR basket, might be a crucial turning point in this regard. What is clear is that any attempt to assess the long-term resilience of the U.S. Treasuries market as the world's safest asset will require a closer examination of the creditor side of the debtor/creditor relationship, something that falls out of the scope of the analysis here.[15]

The main point to take away from the analysis in this article is that any attempt to explain the resiliency of the U.S. Treasuries market, and to project this resiliency into the short-term and long-term future, must taken into account the complex interactions between the global and the domestic.

Notes

[1] U.S. Treasury securities are financial instruments issued by the U.S. Department of the Treasury. Commonly referred to as the U.S. public debt, Treasury securities represent the indebtedness of the U.S. federal government. Throughout this article I use the terms U.S. public debt, U.S. Treasury securities and U.S. Treasuries market interchangeably.

[2] From 2008 to 2015, the interest rate on 10-year Treasury bonds has averaged 2.6 percent, less than half of the average rate since 1980 (6.2 percent) and considerably lower than the average rate since 1790 (4.8 percent). The 1940s mark the only sustained period when average borrowing rates were lower (two percent). Data are from Global Financial Data (series code: IGUSA10D).

[3] U.S. Treasury securities also figure prominently in the voluminous literature on "dollar hegemony" (i.e. the role of the U.S. dollar as a key international currency) (see Chey, 2012; Norrloff, 2014). As a store of value, government securities fulfill one of the key functions of money, alongside its functions as a unit of account and a measure of value (Cohen 2013: 164). Throughout this piece I draw on this literature only insofar as it relates to the store of value role of the public debt.

[4] For a discussion of the data tracking the identities of foreign owners of the U.S. public debt, see Hager (2016.)

[5] Private demand for Treasury securities has been spurred by crisis-era regulatory changes, including the Basel III accord, which require banks to hold more safe assets on their balance sheets (Prasad, 2014: 80; see also Arslanalp and Tsuda, 2014). For a critical take on the continued designation of government debt as "risk free" in banking regulation, see Tett (2009, 2011).

[6] This is when the public debt is measured on a gross basis (i.e. including the "intra-government" portion of its own debt that the federal government holds). The intricacies of public debt accounting are examined in Hager (2016).

[7] At the end of 2013, foreigners owned only 2.4 percent of Chinese government bonds. Yet as Spencer Lake (2015: 3) notes, recent efforts have been made to increase foreign ownership by opening access to China's interbank bond market. This liberalization effort is part of a broader strategy to internationalize the renminbi and to make the currency, together with the USD, the Euro, the Yen and the Pound, the fifth in a basket of "elite" currencies to value Special Drawing Rights (SDRs). In what some regard as a watershed moment, the IMF announced the inclusion of the renminbi in its SDR basket in November of 2015 (Kynge, 2015).

[8] Page, Bartels, and Seawright (2013: 55) also discovered that the top percentile is very much concerned with budget deficits. In fact, around one-third of respondents to their survey deemed budget deficits the most important issue facing the country, significantly more than any other issue. In a poll conducted by CBS, only seven percent of the general public mentioned budget deficits or the public debt as the most important issue. Yet the SESA findings also reveal considerable nuance in the top percentile's view of budget deficits and two additional points should be made (ibid.: 60). First, the survey shows that the top

percentile strongly favours spending cuts to tax hikes as the way of bringing down deficits. Second, the top percentile is twice as likely than members of the general public to *support* deficit spending in the context of recession and war.

[9] Instead, politicians tend to speak in vague and impersonal terms about the power of the "bond market" (Ferguson, 2008: 65).

[10] This threat of exit is enhanced by global capital mobility, which gives business not only the choice to invest or not invest at home, but also to invest elsewhere.

[11] The position of Flip the Debt assumes that, sooner or later, either through spending cuts or tax hikes, the public debt *must* be reduced from current levels. Yet as proponents of Modern Monetary Theory (MMT) explain, a monetarily sovereign entity such as the U.S. federal government (i.e. an entity that issues debt in a currency it fully controls), is never revenue constrained like a household or firm and can never technically go bankrupt (Wray, 2012). The refusal to acknowledge the implications of monetary sovereignty points to the unquestioned sanctity of "sound finance" within contemporary society.

[12] Edward Wolff (2014) shows that the crisis has done little to alter the distribution of household indebtedness. In his analysis of the 2013 SCF, Wolff calculates a debt-to-income ratio of 0.38 for the top percentile and 1.25 for the middle three quintiles (households in the twentieth to eightieth percentile of distribution).

[13] The tendency for the U.S. political system to favour populist demands for credit has a long history. In the first half of the nineteenth century, northern states bowed to widespread pressures, especially from small farmers, to facilitate greater access to credit by instituting free banking laws (Calomiris and Haber, 2014: 171).

[14] At the domestic level, however, the idea of a status quo crisis is potentially misleading because it glosses over the rapid increase in the power of the top percentile since 2007-8.

[15] Vermeiren (2013) provides a rigorous account of how China's domestic political economy shapes and constrains its role within the global monetary system.

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